DOCUMENT RESUME

ED 421 409 SO 028 967

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TITLE	Basketball Economics.
INSTITUTION	Oregon Council on Economic Education, Portland.
PUB DATE	1994-02-21
NOTE	12p.
AVAILABLE FROM	Oregon Council on Economic Education, Portland State University, P.O. Box 751, Portland, OR 97207; telephone: 503-725-3169.
PUB TYPE	Guides - Classroom - Teacher (052)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Active Learning; *Basketball; *Economics; *Economics Education; Instructional Materials; Secondary Education; Social Studies; Teaching Guides
IDENTIFIERS	National Basketball Association

ABSTRACT

This teaching unit offers five economics lessons related to basketball. Lessons include: (1) "Money, Money, Money in the Basketball Player's World"; (2) "Take Me to the Basketball Game Lesson"; (3) "What Does It Take?"; (4) "Productivity of a Basketball Player"; and (5) "Congratulations! You Just Won the NBA Championships." Most of the lessons include teaching objectives, suggestions for use, and student handouts. (EH)

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ED 421 409

BASKETBALL ECONOMICS

by

Daniel and Ted Scheinman

February 21, 1994

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MONEY, MONEY, MONEY
IN THE BASKETBALL PLAYER'S WORLD

LESSON

(CONCEPT FOCUS: supply, demand, markets and prices, competition)

OBJECTIVES: Students will:

1. Explain how the interaction of buyers (basketball team owners) and sellers (players) determines the market price of a basketball player's contract.
2. Analyze the potential benefits and costs of signing players to multi-million dollar contracts.
3. Explain how talented basketball players are able to negotiate multi-million dollar contracts.
4. Describe the effect of collusion on market prices.

PROCEDURES:

1. Explain to the class that basketball player's salaries have risen dramatically over the past few years, largely due to the free agent market. As a free agent, a basketball player tries to sell his services at the highest possible price. In turn, owners try to sound contracts with the most productive players at the lowest possible price.

2. Select ten students to play the roles of basketball team owners and the players. Reproduce the owner and player cards and distribute accordingly. Remind players that they want to negotiate the highest price (salary) and the owners that they want to get the best player for the lowest price (salary). Instruct both owners and players to keep the dollar amounts on their cards confidential.

3. Have the players and owners introduce themselves. Place the following information about each forward on the court.

   Clyde Robinson: 25 PPG, Good dunk shooter
   Michael Barkeley: 10 PPG
   Magic Ewing: 26 PPG
   Danny Jordan: 20 PPG, Good 3-pt shooter
   Charles O'Neil: 20 PPG

   PPG = Points per game

4. Give owners and players five minutes to negotiate a deal using the information on the role playing cards for Round A. Record the signing price for each player next to his name on the chalkboard. Repeat the simulation using information for Round B.

5. Once the two rounds of negotiations have been completed, discuss the following:

   What happened to the signing price between Round A and Round B? (Went down)
   Why? Owners agreed not to offer more than $1.5 million in Round B.

How did you feel about the negotiations in Round A and in Round B? (Owners may feel more comfortable with Round B because they didn't worry about competition. However, some may not sign a player and feel frustrated being limited to $1.5 million. Most players will feel frustrated in Round B as they are not able to find owners willing to pay them the salary they are seeking.) Why are basketball owners forbidden to collude, make a secret agreement? (Players are unable to negotiate a contract for their market value.)

MONEY, MONEY, MONEY IN THE BASKETBALL PLAYER'S WORLD

OWNER CARDS	PLAYER CARDS
Portland Trailblazers Blazers need a Forward Round A: Will spend $1 million Round B: Will spend $1.5 million	Player Clyde Robinson Forward Wants $3 million
Seattle Sonics Sonics need a Forward Round A: Will spend $2.5 million Round B: Will spend $1.5 million	Player Michael Barkeley Forward Wants $750,000
Utah Jazz Jazz need a Forward Round A: Will spend $2.2 million Round B: Will spend $1.5 million	Player Magic Ewing Forward Wants $2.8 million
L A Lakers Lakers need a Forward Round A: Will spend $1.5 million Round B: Will spend $1.5 million	Player Danny Jordan Forward Wants $2.4 million
San Antonio Spurs Spurs need a Forward Round A: Will spend $1.4 million Round B: Will spend $1.5 million	Player Charles O'Neil Forward Wants $1.6 million

TAKE ME TO THE BASKETBALL GAME LESSON

CONCEPT FOCUS: scarcity, opportunity cost, choice, price increases

OBJECTIVES: Students will:
1. Recognize that scarcity requires students to make choices.
2. State the opportunity cost of a decision they have made.
3. Calculate the total amount of money spent as a consumer at a basketball game.
4. Explain the effect of increased prices on students' ability to purchase goods and services.

MATERIALS:

Copy "Basketball Concessions" activity sheet for each student.

PROCEDURES:

1. Ask students for examples of situations where they have not been able to have everything they wanted and had to make a choice. Explain that this condition of not having all the goods and services they want is called *scarcity*. Have students determine what was scarce in the examples they gave, state what they chose and what they gave up. Point out that what they gave up is called their *opportunity cost*.

2. Distribute copies of the activity sheet. Tell students when answering questions on this sheet they will have to make decisions on how much to spend their allowance due to scarcity.

3. Once students have completed the activity sheet, review their answers.
   1. $13.00
   2. $18.00
   3. Prices increased, increased costs to concession stand owner, inflation.
   4. Scarcity, not enough allowance to buy everything they want.
   5,6. Answers will vary.
   7. Prices will probably rise. Costs will increase.

BASKETBALL CONCESSIONS

PRICE LIST		
Item	1993	1994
Program	$ 2.00	$ 3.00
Basketball Cap	8.00	11.00
Popcorn	1.00	2.50
Basketball Cards	2.00	1.50

For the first game of the 1993 basketball season, you saved $ 13.00 from your allowance to buy food and souvenirs. You spent it on a program, basketball Cap, popcorn, and basketball cards.

1. How much did you spend on these four items in 1993? _____

For the first game of the 1994 basketball season, you have saved $ 15.00 from allowance for food and souvenirs. You plan to buy the same four items. We you arrive at the coliseum, you realize you do not have enough money.

2. What will a program, a basketball cap, popcorn, and a pack of basketball cards cost this year (1994)? _____

3. What happened between 1993 and 1994?_____Why did happen? _____

4. Why can't you buy everything you want? _____

5. What will you choose? _____
   What will these items cost? _____

6. The **Opportunity Cost** is what you gave up to get the items you bought
   What is your opportunity cost? _____
   _____

7. What do you predict will happen to prices next year? Why? _____
   _____

WHAT DOES IT TAKE?

LESSON

CONCEPT FOCUS: human capital investments, opportunity cost, and payoffs)

OBJECTIVES: Students will:
1. Explain how investing in one's human capital can improve an individual's alternatives.
2. Identify opportunity costs involved and anticipated payoffs from investing in one's human capital.
3. Develop a plan for increasing their own skills and knowledge for a period of a week.

MATERIALS: None

PROCEDURES:

1. As you read the following information about the basketball careers of individuals, ask students to think about what was similar in their careers that made them all successful in achieving their goals.

   Cliff Robinson, of the Portland Trailblazers, wanted to improve his performance as a professional basketball player. He was known for taking risky shots. His coach, Rick Adelman, told him to work on passing to his teammates. He listened to his coach and practiced. During the summer of 1992, he worked hard at his passing. He was able to raise his average from 12.4 points per game in 1991-1992 to 19.1 points per game in 1992-1993. He also won the sixth man award in 1992-1993.

   Gary Payton, of the Seattle Supersonics, wanted to improve his shooting. During the summer of 1992, he made 1000 practice shots every day. He was able to increase his average from 9.4 points per game in 1991-1992 to 13.5 points per game in 1992-1993.

   Danny Ainge, of the Phoenix Suns, was good at baseball and basketball, but he knew he could not do a good job in both sports. He chose basketball and practiced hard until he became one of the best three-point shooters in the NBA.

   Rick Adelman, used to play basketball, but he was never a top player. He found that he could do a better job as a coach. He worked hard and became the head coach for the Portland Trailblazers and took them to two NBA finals seasons.

2. Place the following chart on the board and help students fill in the information:

NAME	Human capital investment	Opportunity costs	Payoffs
Cliff Robinson			
Gary Payton			
Danny Ainge			
Rick Adelman			

Guide students to conclude that in each case, these men practiced, learned from experts and worked hard. Their opportunity costs reflect the things they could have done with their time instead of working hard to be successful in professional basketball. The payoffs were their achievements.

3. Help students select personal goals that they will work to achieve in one week. Ask each student to answer these questions: What human capital investment will you make to achieve your goal? What will you have to give up to achieve your goal? What will be your payoff? After one week, ask students to assess their accomplishments and, if necessary, revise their plans.

PRODUCTIVITY OF A BASKETBALL PLAYER

LESSON

CONCEPT FOCUS: productivity, human capital, costs, interdependence)

OBJECTIVES: Students will:
1. Calculate points per game for each player.
2. Determine the salary for a basketball player based on output (performance).
3. List factors that influence an owner's willingness to sign players to multimillion dollars contracts.

MATERIALS:
Copy activity "CONGRATULATIONS! You Just Won the NBA Championship!" for each student.

PROCEDURES:
1. Tell students they will be owners of a basketball team and determine salaries for the players based on their productivity. One way of measuring a team's productivity is to look at the output of the team's players per unit of input. This can be measured by a player's average points per game (PPG).

2. Distribute copies of "CONGRATULATIONS! You Just Won the NBA Championship." Read the instructions with the class. Ask students to complete the activity sheet. Discuss answers.

3. Discuss the following:

- What factors, other than output or performance, may determine an owner's willingness to pay a player a high salary? (attitude, leadership, popularity) (eg. Danny Ainge encouraging players.)

- What is the total cost of salaries for the five players? ($9 million)

- What other costs does a basketball team owner have?

- What are the risks to the owner of negotiating higher contracts? (Poor performance could lead to fewer fans, less revenues.)

- How will increased salaries affect ticket prices? (Will increase.) Why? (To generate additional revenue to cover expenses.)

- What will happen to the demand for tickets if the team has a losing season next year? (Demand will decrease) How will this affect profits of concession stand owners and revenues for the team's home city? (Will drop.)

Name _____

Activity

CONGRATULATIONS! You Just Won the NBA Championships

Last year your basketball team finished last in their division. This year they won the NBA Championship. Because of this phenomenal feat, all the players want to renegotiate their contracts.

As the owner, you must determine the players' salaries for next year. Use your calculator or long-hand and the formulas below to calculate the points per game (PPG). Put your answers in the appropriate columns on the chart below.

POINTS PER GAME (PPG) = a decimal expression of the number of points divided by the number of games played by the player. PPG is rounded to the nearest tenth of a point.

for example: Ted the Terrible made 2400 points in 80 games played. So, 2400 points/80 games = 30.0 points per game.

Now determine each player's salary for the next year using the following criteria:

1. A player who shoots 25 or **more** points per game is worth $2.5 million.
2. A player who shoots between 15 and 24 points per game is worth $1.0 million.
3. A player who shoots between 5 and 14 points per game is worth $500,000.

Put your decisions in the correct column below:

Player Name	Points made during year.	Number of games played.	Points per game.	Salary Next Year
Ted the Terrible	2400	80		
Daniel the Dunker	1500	60		
Lynn's Famous Layups	1200	60		
Brian, the Bruiser	1400	35		
Joe the Slow	750	75		

Economics America

Oregon Council on
Economic Education
February 28, 1994

Ms. Michelle Mason
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Dear Ms. Mason:
We are pleased to enclose a copy of BASKETBALL ECONOMICS.

Thank you for your interest—if you have further questions, please contact the Oregon Council on Economic Education.

Yours truly,
Kathryn J. Wassam
Administrative Assistant

Enc.

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